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FISCAL IMPACT STATEMENT

LS 7109 **NOTE PREPARED:** Jan 31, 2006
BILL NUMBER: SB 365 **BILL AMENDED:** Jan 26, 2006

SUBJECT: State Employee Retirement Health Benefits.

FIRST AUTHOR: Sen. Kenley **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: **X** **GENERAL** **IMPACT:** State
X **DEDICATED**
X **FEDERAL**

Summary of Legislation: (Amended) This bill provides for group health insurance coverage for a state employee who retires under the "Rule of 85" after June 30, 2006, and before July 1, 2012. The bill specifies that the plan is not available to retired State Police and other officers who are eligible for retirement health benefits. The bill also provides that a retired state employee's spouse who is eligible for group health insurance from an employer is not eligible for coverage under the bill. The bill requires a retired state employee to pay 150% of the premium for an active employee.

The bill also specifies that the state may design a program under which employee and employer contributions are made to a health care account.

Effective Date: July 1, 2006.

Explanation of State Expenditures: (Revised) *Summary:* This bill permits state employees who retire after June 30, 2006, and before July 1, 2012, under the "Rule of 85", and who are not eligible for Medicare to continue to participate in the health insurance program offered to active state employees, but with a reduced premium contribution. The retired employee will be required to contribute an amount equal to 150% of the premium that is paid by active state employees. Currently, a retired state employee must pay a premium amount that is equal to both the employee share and the employer share. In addition, if the spouse of the retired state employee is eligible for an employer-sponsored health plan, the spouse would not be eligible to participate in the state's health plan (i.e., the state retiree would only be eligible for single coverage and not family coverage). A preliminary estimate of the net additional state expenditures is $0.6 M in FY 2007, $2.1 M in FY 2008, $3.6 M in FY 2009, and $5.4 M in FY 2010. [Net expenditures are anticipated to continue growing past

FY 2010; however, at this time later years have not been estimated.]

This bill also allows the state or state employees to make additional monetary contributions to a retirement medical benefits account established for the purpose of converting unused excess accrued leave to a monetary amount or to another health care account. To the extent allowed by federal law, money in the accounts may be used by the retiree to pay for health insurance benefits on a pretax basis. Any future state or state employee monetary contributions for this purpose will depend on legislative and administrative actions.

Background Information: Currently, state employees may retire with normal retirement benefits if the employee's (1) age is at least 65 and has accumulated at least 10 years of creditable service; (2) age is at least 60 and has accumulated at least 15 years of creditable service; or (3) age is at least 55 and whose age plus years of creditable service sum to at least 85 ("Rule of 85"). In addition, an employee may retire with reduced retirement benefits if the employee's (4) age is at least 50 with at least 15 years of creditable service. This bill applies to individuals who meet the criteria for (3), above, those who qualify under the "Rule of 85".

Under current statute, retired state employees who are at least 55 years of age, have completed 20 years of creditable service (10 of which were completed immediately preceding retirement), and have completed at least 15 years of participation in the retirement plan are able to participate in the state employee group health benefit plans. Also under current statute, the entire cost of the insurance premium, both the employee share and the state share, must be paid by a retired employee.

This bill provides that retired employees who meet the criteria for the "Rule of 85" and are under the age for Medicare eligibility must pay a premium equal to 150% of the premium paid by an active employee and the state will pay the balance. The current employer share of premiums for single coverage for active employees varies between 77% and 100%, depending on the health benefit plan. The employer share for family coverage varies between 76% and 100%.

Expected participant numbers include both the estimated number of employees who would have retired anyway, as well as an estimated number who would not otherwise have retired, but would choose to because of the additional incentive provided by the reduced cost of health insurance. These numbers are anticipated to continue growing past 2010. However, the number of expected retirements for later years have not at this time been estimated. The annual number of retirees for which the state will be contributing toward retiree health insurance will accumulate for a total of 6 years (until June 30, 2012) before declining for a period of 10 years.

A salary savings is factored into the estimate because of the anticipated hiring of a less expensive replacement for those employees who would not have otherwise retired, but will now because of the incentive. An adverse experience factor is also applied to those individuals who would have retired anyway, but would not have chosen to participate in the state health plan were it not for the extra incentive provided by the reduced premium cost.

This analysis is based on a data set containing the age and service data for 33,500 active state employees as of December 31, 2004.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: Public Employees Retirement Fund data.

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